DOCUMENT RESUME

ED 482 686 SP 041 856

AUTHOR	Hall, George; Metsinger, Jackie; McGinnis, Patricia
TITLE	Decentralized Budgeting in Education: Model Variations and Practitioner Perspectives.
PUB DATE	2003-11-00
NOTE	12p.; Written in collaboration with Olin Adams.
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	EDRS Price MF01/PC01 Plus Postage.
DESCRIPTORS	*Budgeting; *Decentralization; *Decision Making; *Educational Finance; Elementary Secondary Education; *Money Management; Postsecondary Education
IDENTIFIERS	*Distributed Practice; Responsibility Center Budgeting; *School Based Budgeting

ABSTRACT

In educational settings, decentralized budgeting refers to various fiscal practices that disperse budgeting responsibility away from central administration to the line education units. This distributed decision-making is common to several financial management models. Among the many financial management models that employ decentralized budgeting are site-based budgeting, contribution margin budgeting, and responsibility center management or responsibility center budgeting. While all of these models incorporate distributed decision making into their operation, the span of budgetary decision making responsibility appears to be related to the educational unit's influence over its revenue stream. All three models share characteristics common to both public school and postsecondary educational settings. From the perspectives of budgeting practitioners, the diversity of decentralized budgeting in educational settings is apparent. From public school settings, where administrators focus their budgeting energies on controlling costs, to universities, where administrators pursue alternative revenue sources, decentralized budgeting manifests the characteristics of different financial management models. Across the range of diverse manifestations, decentralized budgeting in education attempts to empower fundamental unit personnel with the ability to participate in, influence, and take ownership of expense and/or revenue decisions for which they are ultimately and uniquely responsible. (Contains 10 references.) (SM)

Reproductions supplied by EDRS are the best that can be made
from the original document.

Decentralized Budgeting in Education: Model Variations and Practitioner Perspectives

ED 482 686

A Project by George Hall, Jackie Metsinger, and Patricia McGinnis

In Collaboration with Olin Adams, Ph.D.

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

George Hall

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

1

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

Department of Educational Foundations, Leadership and Technology
College of Education
Auburn University, Alabama 36849

BEST COPY AVAILABLE

SP041856

Decentralized Budgeting in Education: Model Variations and Practitioner Perspectives

As applied to educational settings, "decentralized budgeting" generically refers to a variety of fiscal practices that disperse budgeting responsibility away from central administration to the line education units. This distributed decision-making is common to several financial management models, which are discussed in the first part of this two-part paper. The second part presents the views of practitioners, regarding their experience with budgeting in education.

Decentralized Budgeting Model Variations

Among the variety of financial management models that employ decentralized budgeting are (a) Site-Based Budgeting (SBB), (b) Contribution Margin Budgeting (CMB), and (c) Responsibility Center Management (RCM) or Responsibility Center Budgeting (RCB). While all of the models incorporate distributed decision-making into their operation, the span of budgetary decision-making responsibility appears to be related to the educational unit's influence over its revenue stream. The SBB model with its focus on controlling costs is well suited to the public school system of Fort Worth, Texas (Peternick & Sherman, 1998), where the district is a largely passive recipient of state revenue allocations. In this fixed-revenue environment, budget responsibility focuses on controlling each school's direct costs. The CMB model, with its expanded consideration of all costs (direct and indirect), as well as revenues, is well suited to an Iowa community college setting (Tambrino, 2001). With greater influence over its revenue stream through the collection of tuition and fees, the community college budget decision-making expands beyond cost controls into revenue planning. The RCM (Stocum & Rooney, 1997) and RCB (Strupeck, Milani, and Murphy, 1993) models, with their emphasis on revenue entrepreneurship are utilized by the academic departments of Indiana University-Purdue University Indianapolis and Georgia Tech's athletic programs, respectively, where influence

over revenue generation is greatest. In addition to planning for revenues from tuition and fees, institutions of higher education have available to them additional revenues from alumni donations, contracts and grants, and athletic program proceeds.

Common Characteristics

All three decentralized budgeting model variations share characteristics common to both public school and postsecondary educational settings. These four characteristics are: a) some level of decentralized budgeting authority and responsibility; b) consideration of at least the line unit's direct costs; c) relinquishment of budgetary responsibility for facilities maintenance (and most indirect unit costs) to the central administration; and d) the pre-eminence of the institution's academic mission in guiding financial decisions.

Unique Characteristics

Two decentralized budgeting model characteristics appear to be unique to the postsecondary setting. The first, common to both the community college (CMB model) and university setting (RCM and RCM models), expands budgetary decision-making beyond controlling direct costs to include responsibility for the unit's indirect costs (repaid through indirect cost recovery) and revenues as well. A second unique characteristic, the carryover of "surplus" revenue and the related encouragement of revenue entrepreneurship, is applicable only to the university setting. Unlike the public school and community college settings, which have limited alternative revenue sources, university department heads and athletic program coaches have access to significant alternative sources of revenue, such as contracts, grants, alumni gifts, and sport marketing initiatives, to supplement their budgets. The capacity of university academic and athletic programs to generate supplemental revenue appears to be integrally related to the increased budgetary responsibilities delegated to those units.

The existence of these supplemental revenues is reflected in the university practitioner perspectives presented in the second part of this paper. On the other hand, the views of the public school administrators, also presented below, reflect a narrower preoccupation with cost control and the budgetary process.

Practitioner Perspectives

Georgia County District Superintendent and School Principal

The two Georgia county school administrators interviewed were the female school district superintendent and a male elementary school principal. Before discussing the county's revenue challenges, the superintendent reviewed the budget procedure in this typical site-based managed school district.

The process begins with the budget expense forms, based on the last year's expenses, being sent to the school principals. They, in turn, distribute expenditure sheets to the classroom teachers. The teachers' returned sheets are used by the principal to compile the school budget. The principals meet with the superintendent to discuss their school budgets. Each principal then presents his or her budget to the Board of Education. Based on the requests of each school, necessary adjustments are made to the school budgets with each principal's input. The superintendent then compiles all school and department budgets. Revenue estimates are compared with budget requests. If projected revenues and expenditures do not balance, the decision must be made at this point whether to raise local property taxes or cut expenditures. Public budget hearings are held to get input from citizens. The Superintendent's advisory board helps to ensure that all voices in the school district are heard. The advisory team is made up of all levels of school personnel and teachers from each school. The board is presented with the

tentative budget and a time period for review is allowed to pass. The tentative budget is advertised in the newspaper after which the final budget is voted on by the Board of Education.

Projected district revenues are based on anticipated local property tax, federal monies, and the state allotment sheet, which tells how much state funding will be received. All revenue estimates are kept low, because of a possible shortage of state funds. This past year the new governor, in an effort to address the deficit left by the previous governor, had to cut 5% of state funds already allocated to the schools. This, in turn, forced the superintendent to put a freeze on all spending. The state supplies the bare necessities for a school district. Funding from the state is based on FTE, which means full-time equivalent. Systems get more money for special education and gifted children. The federal government also gives each state money based on the FTE count. Schools designated as Title I schools (a high percentage of students receiving free or reduced lunches) get extra federal funding. With the *No Child Left Behind Act of 2002*, federal money is supposed to go to schools earmarked for the *Reading First Program*. A third and lesser source of county school district revenue is from a 19-mill property tax. Unfortunately, at this relatively low millage, the tax revenue from a house valued at $300,000 is not sufficient to cover the cost of one child's education in Harris County. This not withstanding, the county has a good reserve built up to cover unexpected shortfalls with the budget. The superintendent stated that the county has been able to keep all their paraprofessionals and teachers because the system does not have many central office administrators.

The second of the Georgia county school administrators interviewed was a male elementary school principal, in the district, who reiterated that Harris County uses a site-based budgeting procedure. At the principal's school, the budgeting process begins by determining grade-level budgets. These are determined, in part, by what they need to operate their

classrooms and, in part, by the enrollment within each grade level. According to the principal, at times, the committee input suggested by the purest models of site-based management is not solicited due to the time-constrained imperatives of decision-making. He also stated that his school budget, excluding salaries, usually averages around $105,000.

The principal also related how the school pays for some costs. Some costs, like the phone bill, are paid by turning in a purchase order to the central office. Some variable costs are paid out of the school's general fund, which is augmented by revenues from school activities, such as ice-cream sales, drink machines, school pictures, and the Fall Festival. Examples of school costs paid from the general fund are red ribbon week, field day, and special events. Other uses of general fund monies are the principal's prerogative. One principal used these monies to decorate her office and buy new furniture for the front entrance. Another principal uses the money for the faculty's annual Christmas party.

An Alabama University College Dean

The interview with the Nursing College Dean encompassed a discussion of the College's organizational structure as well as its budgetary revenues and costs. As chief administrator for a College of Nursing that is divided between a university's main campus and commuter campus, she faces some daunting organizational and budgetary challenges.

The commuter campus program occupies a three-story building, which houses offices, classrooms, an auditorium, laboratories, and a Nursing Care Center. The Care Center is a walk-in facility, which operates much like a doctor's office. The center is staffed by a nurse practitioner, a registered nurse, and a few support staff members, along with a consulting physician. The care center serves the commuter campus faculty, staff, students, as well as

"walk-in" patients and operates on a budget of $5,000. This amount is less than the care center's revenues, the difference of which is used to support the commuter campus' nursing program.

According to the Dean, the dual campus program is operated from two inadequate operating and maintenance (O &M) budgets as well several other small sources of revenue. The first O & M budget is used for the commuter campus' nursing program and the second is shared by the commuter and main campus programs. The first O & M budget, in the amount of $14,000, supports the administrative office for the Dean, Assistant Dean, and two secretaries on the commuter campus. This budget pays for institutional membership in professional organizations for the program, as well as telephones and fax machines for the administrative office, Nursing Care Center, and faculty offices,

A second O & M budget, in the amount of $24,000, is divided evenly between the main campus and the commuter campus programs. This budget is used for travel, copy machine leases, software, office supplies, along with some equipment purchases and repairs. Repair cost are negotiated with the university's Buildings and Maintenance Department. The funds from this second budget are usually exhausted by the end of spring semester.

With the $24,000 from the second O & M budget used up by June, the summer term is operated with several small "stashes" of money. One is left over from a funded outreach grant, of which the Dean gets an eighth. Another stash is referred to a "Dental Fund," apparently left over from a previous fund. The Dean also maintains a "slush fund" to support faculty who present papers. The last stash, used to support the college's summer term, is a gift fund of a few thousand dollars, which fluctuates according to the amounts given.

Four final non-O & M Budget sources of revenue for the Dean are the college's contract with a nursing home group for dispute resolution, a newly instituted student technology fee, the

university's development office, and unfilled college positions. Of the $60 hourly fee paid to college faculty for resolving disputes, $10 is credited to the Dean's office. With funds received so far from the new student technology fee, computer technology has been upgraded through out the college's computer labs and offices. Funds collected for the nursing program, by the development office, are first reduced by the nursing program's portion of the development liaison officer's salary, car and insurance. Finally, the Dean is able to retain half of any salaries allocated for vacant college positions, which are assigned to the university's main campus nursing program.

Apart from the two O & M budgets and the other revenue sources described above, the Dean is constrained to negotiate with the university about new furnishings, programs, or positions (although the university often pays for the labor associated with a funding request). For example, a masters degree program in nursing has been prepared for approval by the university and state curriculum agencies but, as yet, no money has been allocated for such a program. Often the university's response is a swirl of "maybes" and it is not clear whether or not to go ahead with plans. In the midst of such uncertainty, the growth and development of the program is assumed as a matter of professional commitment, spurred on by the context of a nursing shortage.

While the Dean struggles to maintain the two campus programs from a diverse collection of budgetary and "other" sources, she does not have to budget for the college's indirect costs, such as utility bills or building maintenance. When a leak in the roof recently occurred, the university's building and maintenance service took care of the repairs to the building. These indirect cost figures are maintained by the Institutional Research Office for federal reporting, but are not charged to the College of Nursing. Furthermore, depreciation expense of the original

commuter campus nursing building is not a budgetary consideration, as it was built with a donation to build a college of nursing in 1988.

An Alabama University Chief Financial Officer

The interview with a university chief financial officer (CFO) focused on the university's efforts to apply the RCM model of decentralized budgeting to its academic departments. However to begin the interview, the CFO gave an overview of the university's budget process, which develops incrementally, from year to year. The budget follows both a line item and program format, with the former presented within the latter. Budget projections for the coming year are based on actual revenues and expenses to date as well as some application of trend analysis. The budget's emphasis on controlling costs is reflected in its relatively brief listing of revenues on two pages, as compared to the 36 pages used to enumerate its expenses. The greatest ongoing challenge in the budgeting process is to balance the university's dual goals of providing the highest quality education and the lowest possible costs.

In applying the concept of responsibility centered management to the university's budget process, the CFO said that, currently, he would characterize the academic units more as cost centers, rather than as profit or investment centers, although they are increasingly moving in the direction of the latter two. The units currently are not true costs centers, as they only handle direct costs, such as salaries, office supplies, travel, etc. However, the academic departments now retain, for an indefinite period, any unspent portions of their direct costs. While these unspent reserves serve enhance the university's financial position, in the future he foresees that departments will be required to return as much as 50% of the unspent allocations back to the university's central administration, where the proceeds can help address the academic units indirect costs.

An attempt to apply RCM, in its fullest decentralized form, was attempted by the university in the early 1990's, when the phrase, "Every tub on its own bottom," was in vogue. The central administration's attempt to push all cost and revenue budget decisions to the departmental level was met with disinterest. The university even attempted to develop a method of allocating square footage of building space to the units, but technical limitations precluded its completion. While academic units were successful in resisting the university's attempt to implement the full range of budgetary decision-making associated with the RCM model, they did accept the beneficial practice of retaining unspent direct cost allocations, which is still enjoyed today.

Conclusion

From the perspectives of budgeting practitioners, the diversity of decentralized budgeting in educational settings is apparent. From public school settings, where superintendents and principals focus their budgeting energies on controlling costs, to universities, where deans, coaches, and administrators pursue alternative sources of revenue, decentralized budgeting manifests the characteristics of different financial management models. However, across the range of its diverse manifestations, decentralized budgeting in education, at its core, attempts to empower fundamental unit personnel with the ability to participate in, influence, and take ownership of expense and/or revenue decisions for which they are ultimately and uniquely responsible. Utilizing line unit personnel in the budgetary process holds the promise of more effectively applying increasingly scarce education resources.

List of References

Dee, J.D., Henkin, A.B., & Pell, S.W. (2002). Support for innovations in site-based managed schools: Developing a climate for change. *Educational Research Quarterly*, 25(4), 36-48.

Dempsey, William M. (1997, January/February). The Devil is in the Details. *Trusteeship*, 16-20.

Enderlin-Lampe, "S. (2002). Empowerment: Teacher perceptions, aspirations, and efficacy. *Journal of Instructional Psychology*, 29(3), 139-147.

Hadderman, M. (1999), School-based budgeting. *ERIC Digest* (131).

McGuire, K. (1994), The current policy debate in school finance: Why does it matter? *Clearing House*, 00098655, 68 (2), 71-74.

Nir, A.E. (2002). School-based management and its effect on teacher commitment. *International Journal of Leadership in Education*, 5(4), 323-335.

Peternick, Lauri, and Sherman, Joel. (1998, Spring). Site-based Budgeting in Fort Worth, Texas. *Journal of Education Finance*, 23, 532-556.

Stocum, David L. and Rooney, Patrick M. (1997, September/October). Responding to Resource Constraints. *Change*, 51-57.

Strupeck, David C., Milani, Ken, and Murphy, James E., III. (1993, February). Financial Management At Georgia Tech. *Management Accounting*, 58-63.

Tambrino, Paul A. (2001, January). Contribution Margin Budgeting. *Community College Journal of Research & Practice*, 25 (1), 29-37.

U.S. Department of Education
Office of Educational Research and Improvement (OERI)
National Library of Education (NLE)
Educational Resources Information Center (ERIC)

ERIC Educational Resources Information Center

REPRODUCTION RELEASE

(Specific Document)

I. DOCUMENT IDENTIFICATION:

Title: Decentralized Budgeting in Education: Model Variations and Practitioner Perspectives	
Author(s): George Hall, Jackie Metsinger, Pat McGinnis	
Corporate Source:	Publication Date:

II. REPRODUCTION RELEASE:

In order to disseminate as widely as possible timely and significant materials of interest to the educational community, documents announced in the monthly abstract journal of the ERIC system, *Resources in Education* (RIE), are usually made available to users in microfiche, reproduced paper copy, and electronic media, and sold through the ERIC Document Reproduction Service (EDRS). Credit is given to the source of each document, and, if reproduction release is granted, one of the following notices is affixed to the document.

If permission is granted to reproduce and disseminate the identified document, please CHECK ONE of the following three options and sign at the bottom of the page.

The sample sticker shown below will be affixed to all Level 1 documents

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

1

Level 1

☑

Check here for Level 1 release, permitting reproduction and dissemination in microfiche or other ERIC archival media (e.g., electronic) and paper copy.

The sample sticker shown below will be affixed to all Level 2A documents

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL IN MICROFICHE, AND IN ELECTRONIC MEDIA FOR ERIC COLLECTION SUBSCRIBERS ONLY, HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

2A

Level 2A

☐

Check here for Level 2A release, permitting reproduction and dissemination in microfiche and in electronic media for ERIC archival collection subscribers only.

The sample sticker shown below will be affixed to all Level 2B documents

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

2B

Level 2B

☐

Check here for Level 2B release, permitting reproduction and dissemination in microfiche only.

Documents will be processed as indicated provided reproduction quality permits.
If permission to reproduce is granted, but no box is checked, documents will be processed at Level 1.

I hereby grant to the Educational Resources Information Center (ERIC) nonexclusive permission to reproduce and disseminate this document as indicated above. Reproduction from the ERIC microfiche or electronic media by persons other than ERIC employees and its system contractors requires permission from the copyright holder. Exception is made for non-profit reproduction by libraries and other service agencies to satisfy information needs of educators in response to discrete inquiries.

Sign here, please

Signature: George Hall	Printed Name/Position/Title: George Hall, Doctoral Student	
Organization/Address: Auburn University, AL 36849 Room 1228 Haley Center	Telephone: 334-844-5943	FAX: 334-844-2080
	E-Mail Address: hallgeo@auburn.edu	Date: 11/5/03

(Over)

III. DOCUMENT AVAILABILITY INFORMATION (FROM NON-ERIC SOURCE):

If permission to reproduce is not granted to ERIC, or, if you wish ERIC to cite the availability of the document from another source, please provide the following information regarding the availability of the document. (ERIC will not announce a document unless it is publicly available, and a dependable source can be specified. Contributors should also be aware that ERIC selection criteria are significantly more stringent for documents that cannot be made available through EDRS.)

Publisher/Distributor:
Address:
Price:

IV. REFERRAL OF ERIC TO COPYRIGHT/REPRODUCTION RIGHTS HOLDER:

If the right to grant this reproduction release is held by someone other than the addressee, please provide the appropriate name and address:

Name:
Address:

V. WHERE TO SEND THIS FORM:

Send this form to the following ERIC Clearinghouse:

However, if solicited by the ERIC Facility, or if making an unsolicited contribution to ERIC, return this form (and the document being contributed) to:

ERIC Processing and Reference Facility
4483-A Forbes Boulevard
Lanham, Maryland 20706

Telephone: 301-552-4200
Toll Free: 800-799-3742
FAX: 301-552-4700
e-mail: info@ericfac.piccard.csc.com
WWW: http://ericfacility.org